



MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM

2007 MTRS Annual Report

2007 MTRS Annual Report

Contents

- 3 Message from the Chairman and Executive Director
- 4 Members of the Board
- 5 MTRS financial overview
- 6 Statement of Plan Net Assets
- 7 Statement of Changes in Plan Net Assets
- 8 Investment review
- 9 Membership information
- 13 Actuarial valuation
- 14 How your MTRS benefits are funded

Main Office

One Charles Park
Cambridge, MA 02142-1206
Phone 617-679-MTRS (6877)
Fax 617-679-1661

Western Regional Office

101 State Street, Suite 210
Springfield, MA 01103-2066
Phone 413-784-1711
Fax 413-784-1707

Online

mass.gov/mtrs



Message from the Chairman and Executive Director

To MTRS active and retired members:

We are pleased to provide our members with this new report, summarizing the Massachusetts Teachers' Retirement System's financial and operating data for the year ending December 31, 2007. Although public pension systems are a much discussed topic these days, many people do not have a clear understanding of how they are funded and operate. We hope that you, and the citizens of the Commonwealth who support our system, will find this information useful. We welcome your comments on how we can improve the content and presentation of future reports to make them even more useful.

The financial statements in this report are not audited statements. Rather, they are summaries of the system's official financial reports presented in a way that we believe is easy to read and understand. Our financial activities are audited within the Commonwealth's annual statewide single audit and our financial reports are reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR). We are also periodically audited by the Public Employee Retirement Administration Commission (PERAC), the oversight agency for the state's 106 public pension plans, and by the Office of the State Auditor. (See the CAFR at www.osc.state.ma.us in the Publications and Reports section.)

The financial statements in this report reflect the continued rise in the stock market that eventually peaked in mid-2008. Next year's report will, of course, reflect the tumultuous decline in the financial markets that has dominated the news for the past several months. One of the big advantages of a defined benefit plan such as MTRS is that we are always investing for the long term and are able to ride out the ups and downs of the market. The investment losses in 2008 must be viewed in the context of the extraordinary gains that our investment fund made in the preceding years.

The current limitations on cost of living adjustments also continue to be a major concern, particularly for our retired members. An increase in the COLA formula was adopted by the Legislature in 2008 but was vetoed by the Governor, in large part due to the state's deteriorating fiscal situation. We hope and expect that this will be one of many issues to be addressed by the recently established special commission on pension reform. MTRS Executive Director Joan Schloss will represent our system on that commission.

Behind the scenes, planning and development work continued in 2007 and 2008 on our new "MyTRS" computer system. This new system will allow us to process retirement benefits more accurately and more efficiently. It will also provide our members with secure, on-line access to their accounts. We'll be giving you more updates as we get closer to the final implementation in 2011.

Our mission is to ensure that members of the Massachusetts Teachers' Retirement System achieve and maintain a successful and secure retirement through responsible benefits administration, financial integrity and the provision of outstanding services. Please let us know how we're doing.



Jeff Wulfson, *Chairman*



Joan Schloss, *Executive Director*

Executive Staff

Joan Schloss

Executive Director

Erika M. Glaster

Deputy Executive Director

Sean P. Neilon

Assistant Executive Director

James H. Salvie

General Counsel

Susan Morgan

Director of Strategic Planning and Special Projects

Members of the Board



Jeff Wulfson
Chairman

Associate Commissioner
of Department of
Elementary and
Secondary Education



Linda M. Ruberto
Vice Chair

Appointed by
the Board

Retired
Massachusetts
educator



Timothy P. Cahill
State Treasurer

Chairman,
Pension Reserves
Investment
Management (PRIM)
Board



Karen Ann Mitchell
Elected by
the membership

Active
Massachusetts
educator



A. Joseph DeNucci
State Auditor



Ellen T. Hargraves
Appointed by
the Governor

Retired
Massachusetts
educator



John A.M. Dow, Jr.
Elected by
the membership

MTRS appointed
representative
to the PRIM Board

Retired Massachusetts
educator

**The MTRS's elected representative to
the Pension Reserves Investment
Management (PRIM) Board**



Robert Brousseau
Elected by
the membership

MTRS financial overview

The financial condition of the MTRS can be summarized with two basic financial statements, the **Statement of Plan Net Assets** and the **Statement of Changes in Plan Net Assets**.

- The **Statement of Plan Net Assets** (page 6) measures MTRS's assets and liabilities at the close of the calendar year. Net assets (total assets less liabilities) increased \$2.13 billion (9.19%) during the calendar year. This increase primarily resulted from the appreciation of investment holdings by 9.43%. See page 6 for a condensed statement for the most recent and previous calendar years.
- The **Statement of Changes in Plan Net Assets** (page 7) shows revenues (additions) and applications (deductions) for the fiscal year.

Financial highlights

- Total plan net assets increased in value to \$25.31 billion at December 31, 2007, a 9.19% increase over the total plan net assets of \$23.18 billion at December 31, 2006.
- Total additions to plan net assets were \$2.13 billion. The net investment gain of \$2.7 billion was more than 475% of the amount of member and employer contributions, which totaled \$555.07 million.
- Total MTRS benefit payments were \$1.729 billion in service retirement, disability and survivor benefits.
- The funded ratio increased to 73.9% as of January 1, 2008 from 71.0% at the end of the previous year (see page 13).
- A fully funded system is one in which the plan's assets and expected future investment earnings is sufficient to pay all the expected future benefits that members have earned to date.
- The Commonwealth guarantees the teacher retirement benefits. Pursuant to a funding schedule, the Commonwealth pays an amount to fund pension benefits each year, and the annual Commonwealth payment includes a portion to fund current-year benefits as well as a portion to fund prior unfunded actuarial liabilities (see page 14).

Condensed Comparative Statement of Plan Net Assets

As of December 31, 2007

	2007		2006	
A S S E T S				
Cash and cash equivalents	\$	93,722,571	\$	116,580,421
Receivables		44,949,570		55,060,280
Investments, at fair value		25,280,320,141		23,101,727,761
Total assets	\$	25,418,992,282	\$	23,273,368,462
Payables	\$	100,278,390	\$	85,373,140
Net assets held in trust for benefits	\$	25,318,713,892	\$	23,187,995,322

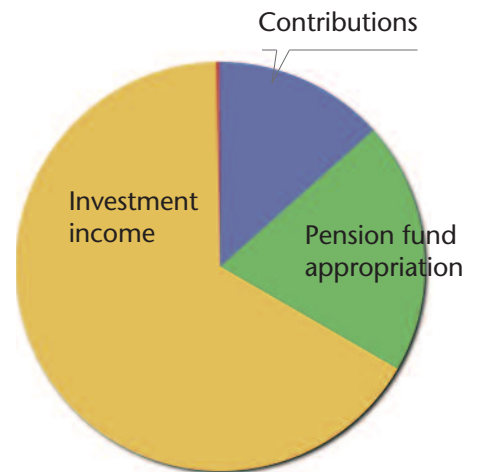
Statement of Changes in Plan Net Assets

For the year ended December 31, 2007

The following charts illustrate the MTRS's revenue sources and their applications. Approximately 66.3% of the MTRS's income is derived from investments; the balance comes from member and employer contributions.

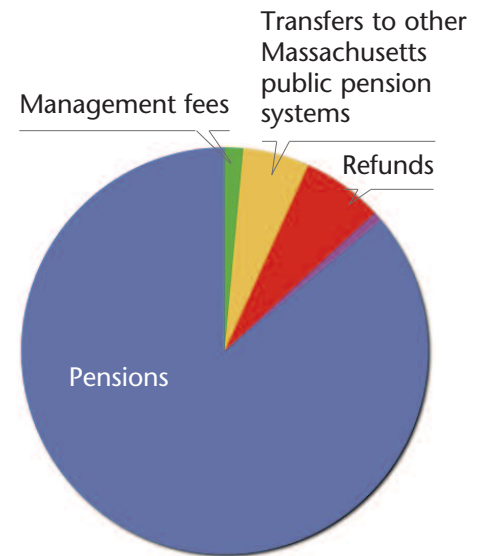
Revenue sources

Member contributions	\$ 555,071,010	13.4 %
Commonwealth contribution	825,500,000	19.9
Investment income	2,746,289,156	66.3
Transfers from other Massachusetts public pension systems	9,462,384	0.2
Federal Grants reimbursement	3,283,790	0.0
Interest not refunded	743,360	0.0
Total revenue	\$ 4,140,349,700	100.0 %



Revenue applications

Pensions	\$ 1,729,988,920	86.1 %
Refunds	30,235,490	1.5
Transfers to other Massachusetts public pension systems	105,686,350	5.3
Investment management fees	129,157,210	6.4
PERAC expense	3,535,970	0.2
Administrative expenses	14,563,160	0.4
Federal Grants distributed	3,283,790	0.1
Total applications	\$ 2,009,631,130	100.0 %
Total Revenue (above)		
less total applications	\$ 2,130,718,570	



Change in Plan Net Assets

Net assets held in trust January 1, 2007	\$ 23,187,995,322
Total Revenue less total applications	\$ 2,130,718,570
Net assets held in trust December 31, 2007	\$ 25,318,713,892

Investment review

All of the plan's investment assets are invested by the Pension Reserves Investment (PRIM) Board through the Commonwealth's Pension Reserves Investment Trust (PRIT). The PRIM Board also manages investments for the State Retirement System and a number of local retirement systems.

Calendar year 2007 was a year of solid investment performance with an overall return of 9.4%—above the actuarial projected return of 8.25%. However, recent market declines have erased the gains through September 30, 2008.

When reviewing performance, it is important to remember that the MTRS is a long-term investor and results over longer periods are more significant.

Investment performance

The fund maintained a diverse portfolio and performed well in comparison to its peers. The fund continued to maximize investment performance while maintaining acceptable levels of risk.

Over the past five years, PRIT's performance had been favorable compared to that of comparable funds—in all asset categories. The breakdown of assets by category and their respective returns for certain periods is shown below.

PRIT performance by asset class

	Asset allocation % Actual as of 12/31/2007	Performance % return			
		1yr	3yr	5yr	10yr
Domestic equity	28.2	4.43	8.40	13.83	6.98
International equity	19.7	10.82	17.14	21.67	10.52
Emerging markets	5.9	33.64	33.69	36.99	15.08
Fixed income	11.5	7.38	4.96	4.92	6.33
TIPS and ILBs commodities	6.4	14.48	5.07	6.42	
High-yield debt	4.5	8.03	9.31	14.15	
Alternative investments	7.4	39.26	35.82	28.10	16.69
Real estate	9.6	9.10	18.74	20.25	15.12
Timber/Natural resources	2.0	38.57	22.62	18.65	
Absolute return	4.9	11.03	9.54		
Total	100.00	11.92	13.78	16.34	9.90
S&P 500		5.49	8.62	12.83	5.91

We have a diverse asset allocation to minimize risk.

Membership information

This section includes information about the number of members who contribute to the MTRS and individuals who receive pensions.

Active members

As of January 1, 2008

Source: PERAC's Commonwealth Actuarial Valuation Report, January 2008

■ Number of active members.....	89,636
■ Average age	44.2 years
■ Average service	12.9 years
■ Average salary	\$57,605
■ Average annuity savings fund balance	\$48,941
■ Total member compensation.....	\$5,163,498,060

Active members: Service distribution by age

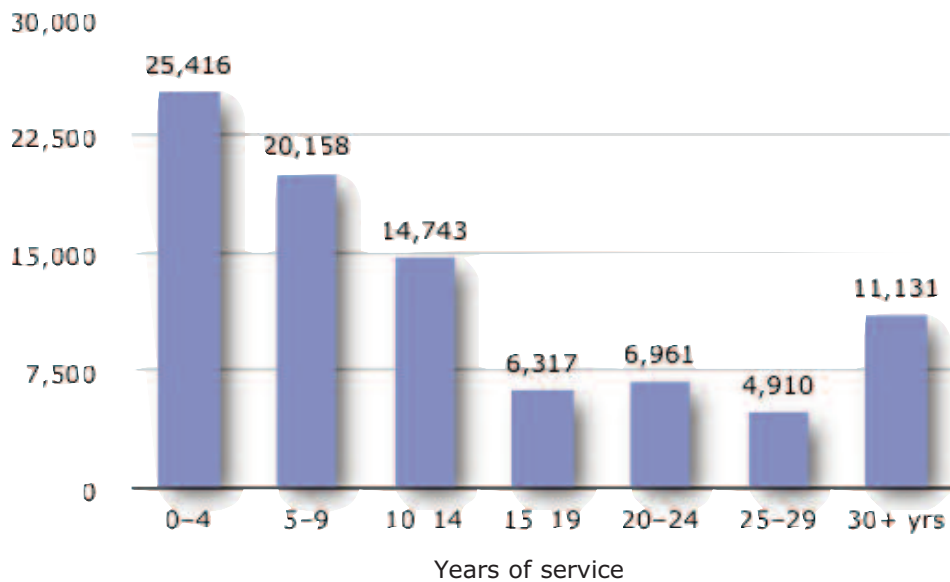
As of January 1, 2008

Source: PERAC's Commonwealth Actuarial Valuation Report, January 2008

Present age	Years of service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
0-24	2,551	1						2,552
25-29	8,818	2,027	3					10,848
30-34	4,121	5,389	1,398	2				10,910
35-39	2,545	3,632	4,519	542				11,238
40-44	2,273	2,271	2,536	1,650	668	2		9,400
45-49	2,115	2,457	1,986	1,119	2,266	401		10,344
50-54	1,497	2,340	2,130	1,218	1,696	2,782	1,830	13,493
55-59	1,192	1,453	1,575	1,257	1,563	1,326	6,798	15,164
60-64	265	510	519	459	651	330	2,148	4,882
65+	39	78	77	70	117	69	355	805
Total	25,416	20,158	14,743	6,317	6,961	4,910	11,131	89,636

Active members: Distribution by years of service

Per above



The number of members eligible to retire (those with 20 or more years of service, or age 55 and over with 10 years of service) is 26,959, or **30%** of the total population of 89,636 active members.

Retired members

2003 vs. 2007

	2003	2007	Change
Number of retirees	39,755	50,024	+ 26%
Average retirement benefit	\$22,535	\$34,347	+ 52%
Total benefits paid	\$895,899,111	\$1,718,157,754	+ 92%

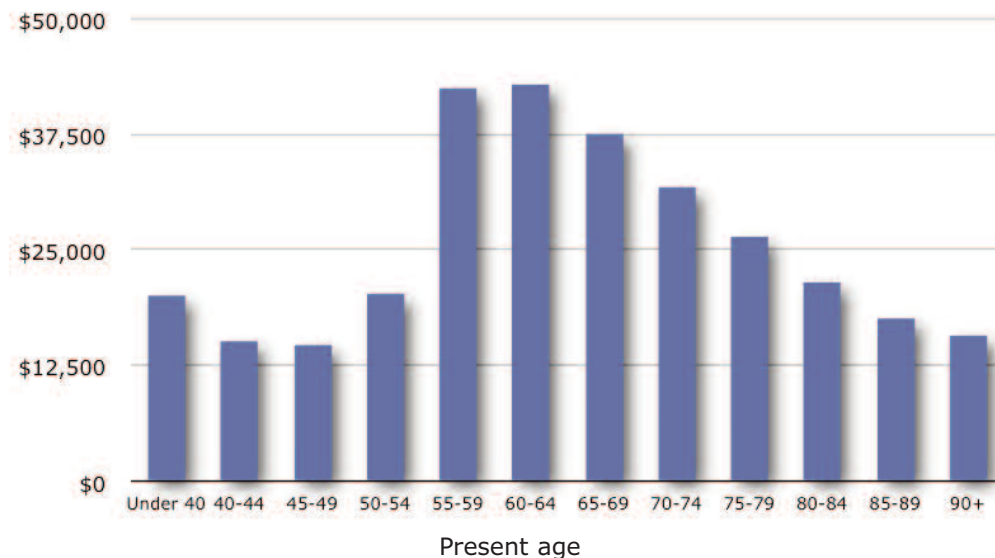
Benefit by age distribution

As of January 1, 2008

Source: PERAC's Commonwealth Actuarial Valuation Report, January 2008

Present age	Number of members	Total benefits	Average benefit
Less than 40	101	\$ 2,036,689	\$ 20,165
40-44	40	607,003	15,175
45-49	70	1,034,102	14,773
50-54	296	6,053,186	20,450
55-59	5,995	255,331,690	42,591
60-64	12,863	554,089,993	43,076
65-69	9,600	361,389,529	37,645
70-74	7,027	223,492,442	31,805
75-79	6,024	159,943,866	26,551
80-84	4,078	87,743,106	21,516
85-89	2,377	41,953,730	17,650
90+	1,553	24,482,418	15,765
Total	50,024	\$ 1,718,157,754	\$ 34,347

Average benefit by present age



While the average benefit by age will vary from year to year based on the ages of new retirees, it has steadily increased over the years, as evidenced by a right-to-left reading of the bar graph.

Profile of benefit recipients and payments, by benefit type

As of January 1, 2008

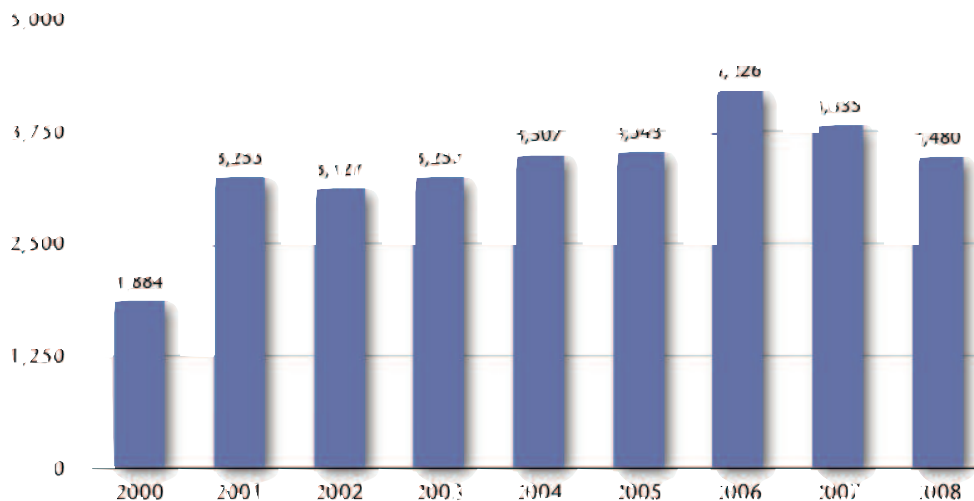
Source: PERAC's Commonwealth Actuarial Valuation Report, January 2008

	Superannuation	Ordinary	Accidental disability	Survivors disability	Total
Number of members	45,888	427	298	3,411	50,024
Average age	70	67.1	67.7	71.6	69.7
Average annual benefit	\$35,889	\$18,256	\$32,813	\$15,741	\$34,347
Annual pension payments	\$1,646,892,372	\$7,795,322	\$9,778,225	\$53,691,835	\$1,718,157,754

The overwhelming majority of our benefit recipients—92%—receive a superannuation retirement benefit, which averages \$35,889 per year.

Member retirements

By "retirement season" year (October 1–September 30)



While the total number of retirements per year has increased greatly over the past nine years, the numbers have held steady in recent years—a trend we expect to continue.

Actuarial valuation

As of January 1, 2008; in thousands

The funded ratio, used for funding purposes, is a snapshot of the MTRS's financial health, calculated by comparing the MTRS's future obligations accrued to date to its current assets.

Actuarial liability

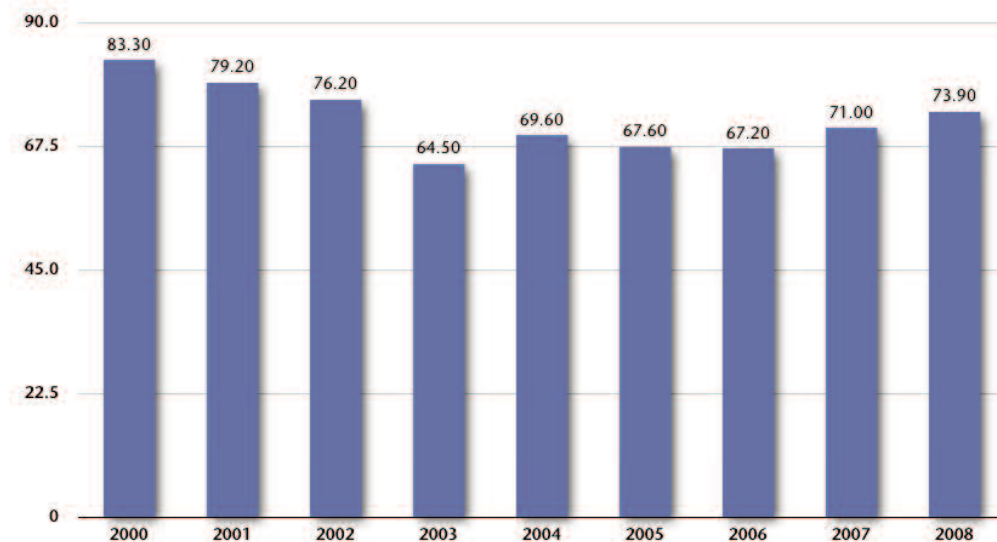
Actives	\$ 14,312,286
Vested terminated	500,000
Retirees and inactives	16,143,218
Total	30,955,504

Assets

Assets (actuarial value)	\$ 22,883,553
Unfunded actuarial liability	8,071,951
Funded ratio	73.9%

MTRS funded ratio

By year



Since 2000, the MTRS's funded ratio has ranged from a low of 64.5% to a high of 83.3%.

The funded ratio increased from 71.0% in 2006 to 73.9% in 2007 due to an investment gain in 2007.

Full funding at 100% is targeted for year 2025.

How your MTRS benefits are funded

As of January 1, 2008

Normal Cost is that portion of the Actuarial Present Value of pension plan benefits which is due to be paid in a single fiscal year. Employee contributions represent 83% of the cost, the balance being paid by the employer. Normal Cost is 11.61% of payroll, of which 9.65% is contributed by the employees and 1.96% is paid by the MTRS.

In addition to the employer Normal Cost, the Commonwealth is responsible for the costs associated with the amortization of the System's unfunded pension liability. For FY2008, the Commonwealth appropriated \$809,000,000 for both the employer Normal Cost and unfunded pension liability. This represents 15.6% of payroll.

The Commonwealth is responsible for providing and guaranteeing teacher retirement benefits. Local school district employers do not contribute or bear any responsibility for their teachers' retirement benefits.

"Normal Cost" is an amount calculated by the Commonwealth's actuary of what the Commonwealth has to pay for pension benefits in a given year.

Normal Cost

Total Normal Cost	\$ 599,689,000
Expected employee contributions	498,433,000
Employer Normal Cost	\$ 101,256,000

Total Normal Cost as a percentage of payroll

Employee expected contribution ÷ Payroll \$498,433,000 ÷ \$5,163,498,060	9.65%
Employer Normal Cost ÷ Payroll \$101,256,000 ÷ \$5,163,498,060	1.96%
Total Normal Cost ÷ Payroll \$599,689,000 ÷ \$5,163,498,060	11.61%

Percentage of Normal Cost borne by the employee vs. the employer (MTRS)

Employee contribution ÷ Total Normal Cost \$498,433,000 ÷ \$599,689,000	83.12%
Employer contribution ÷ Total Normal Cost \$101,256,000 ÷ \$599,689,000	16.88%
Total	100.00%

MTRS pension funding schedule

By fiscal year, in thousands

	FY2007	FY2008	FY2009‡
Appropriation	\$ 860,113	\$ 907,390	\$ 981,042
PRIT draws	524,036	618,598	686,174
Pension payments*	\$ 1,384,149	\$ 1,525,988	\$1,667,216

‡ Estimated

MTRS pension funding by source

